

EXHIBIT B

FUEL MANAGEMENT PROTOCOLS

EXHIBIT B

FUEL MANAGEMENT PROTOCOLS

Certain of the Contracts listed on Schedule 1 of this Order provide DWR the option of either (i) letting the Supplier supply the necessary natural gas for its generating units at an index-based price or agreed upon fixed price or (ii) DWR contracting for the gas supply and causing such supply to be delivered to the Supplier under a tolling arrangement (“Fuel Option”). This option exists both with Must-Take Contracts and Dispatchable Contracts. Certain of the Contracts with Fuel Option provides that DWR can decide on a monthly basis whether to supply the gas and others provide that the decision be made annually when DWR reviews the Supplier’s proposed fuel plan.

The purpose of this Exhibit B is to describe the relationship which will exist between DWR and Utility and the specific responsibilities of each as they all relate to managing the natural gas provisions of the Contracts which include Fuel Options. Specifically, this Exhibit B will address responsibilities for the following activities: (i) determining types and lengths of gas contracts, (ii) nominating deliveries, (iii) contracting for gas transportation and storage, (iv) managing imbalances, (v) reviewing, authorizing and making payment of gas invoices and (vi) determining and implementing hedge strategies, as appropriate.

I. Operating Relationship Between DWR and Utility

While DWR will retain legal and financial responsibility for gas and related services, Utility shall, as a limited agent acting for DWR, perform the administrative and operational activities, as further specified below, required to ensure adequate gas is supplied to Suppliers’ generating units, consistent with the tolling provisions included in the Contracts. The intent of this relationship is to provide Utility sufficient flexibility and authority to execute normal day-to-day activities associated with managing the fuel provisions of tolling Contracts and procurement of natural gas and related services without direct involvement by DWR but in a manner consistent with Utility fuel plans which have been reviewed by DWR and the Commission.

II. Fuel Activities

Consistent with the terms of the Contracts with Fuel Options, Utility shall have administrative and operational authority to act, as a limited agent, for fuel supply related activities, as more specifically described below.

[Execution of such activities shall conform to the following goals and guidelines whenever Utility has elected to supply gas to a Supplier under a Contract with Fuel Option.]

1. Utility shall use reasonable commercial efforts to deliver gas in a reliable manner and consistent with gas requirements for producing scheduled energy.
2. Utility shall develop a portfolio of gas supply for DWR Contracts that contain Fuel Options and where Utility is to be the gas provider. Such portfolio should be diversified in terms of price mechanism, period of performance, and gas suppliers.
3. Utility shall develop a portfolio of supply which is cost-effective relative to the market.]

III. Review of Generator Prepared Fuel Plans

In accordance with the terms of each of the Contracts with Fuel Options, Utility shall review each fuel plan prepared and submitted by the Supplier and determine whether to recommend (i) approval of the fuel plan and authorization for the Supplier to provide gas to its generating unit(s), or (ii) procurement and management of gas supplies to the generating unit(s) by Utility. Utility shall advise DWR and the Commission on a timely basis of its recommendation regarding responsibility for supplying natural gas. DWR and the Commission shall review Utility's recommendation and either approve or identify requested changes. Once approved, Utility shall advise the Supplier in accordance with the time requirements included in the appropriate Contract with Fuel Option. In addition, for any fuel plans which have been implemented and are operative as of the Effective Date, and where DWR has previously elected to be responsible for gas supply, Utility may advise DWR that it would rather have Supplier supply the gas as of the Effective Date. DWR shall coordinate with Utility and Supplier to revise such fuel plans, to the extent possible, prior to the Effective Date.

IV. Fuel Procurement Strategies

Under the Contracts with Fuel Option, upon Utility's determination that Utility will be responsible for supplying the natural gas, Utility shall, acting as the limited agent of DWR, have administrative and operational responsibility for determining its gas procurement strategies, including but not limited to (i) types of contracts, (ii) length of contracts, (iii) pricing terms, (iv) use of storage, (v) types of gas transportation, (vi) delivery point(s), (vii) whether and how to obtain gas price forecasts, (viii) if and what risk management tools are to be used, and (ix) how to maintain current market intelligence.

Utility shall consolidate these strategies and submit them to DWR and the Commission as a "Gas Supply Plan" on a semi-annual basis. DWR and the Commission will review and the Commission will approve the Gas Supply Plan. Once approved, Utility may act within that Gas Supply Plan without further DWR involvement, except as provided below.

V. Gas Purchasing

Utility and DWR shall jointly determine a list of approved gas suppliers who can be used to supply gas under the Contracts with Fuel Options. Master agreements (GISB, etc) intended to cover normal day-to-day volumes will then be executed with such approved suppliers. While DWR will be the executing party, such agreements shall specifically authorize Utility to act for and on behalf of DWR in negotiating specific prices, quantities and delivery periods for specific purchases under such master agreements.

VI. Gas Transportation

Utility shall have responsibility for recommending to DWR which pipelines should transport gas if Utility is to the gas provider under a Contract with Fuel Option. Upon DWR approval or revision of such recommendation, Utility shall negotiate firm and/or interruptible agreements with such pipelines and submit them to DWR for execution. While DWR will be the executing party, such agreements with pipelines shall specifically authorize Utility to act for and on behalf of DWR in nominating gas deliveries, making imbalance trades and managing gas volumes transported under such agreements. DWR and Utility shall mutually develop in writing and in advance of such negotiations any limits, including without limitation, any terms that may be requested by DWR.

VII. Gas Scheduling

Utility shall have full administrative and operational responsibility for scheduling gas deliveries, whether to a specific generating plant or to storage for all gas contracts entered into by DWR or by Utility on DWR's behalf pursuant to this Exhibit B. This function includes use of interstate and intrastate gas pipeline provider websites, confirming via telephone, and all other activities required to move gas from the designated delivery point, as determined by the Utility, to its destination, as determined by the Utility.

VIII. Storage Capacity, Injections and Withdrawals

Utility shall have responsibility for recommending to DWR a plan for utilizing gas storage services, if Utility is to the gas provider under a Contract with Fuel Option. Upon DWR approval or revision of such recommendation, Utility shall negotiate firm and/or interruptible agreements with such storage service providers and submit them to DWR for execution. While DWR will be the executing party, such agreements with storage service providers shall specifically authorize Utility to act for and on behalf of DWR in nominating gas injections and withdrawals under such agreements. DWR and Utility shall mutually develop in writing and in advance of such negotiations any limits, including without limitation, any terms that may be required by DWR

IX. Managing Gas Delivery/Usage Imbalances

For gas that it purchases and transports on behalf of DWR, Utility shall have full administrative and operational responsibility for monitoring and managing the daily status of gas usage vs. gas deliveries (i.e. gas imbalances). In addition, to the extent that gas transportation providers issue operational flow orders or require adjustments in scheduled gas deliveries due to system constraints, Utility shall be responsible for compliance with such orders. Utility shall also be responsible for any penalties imposed by gas transportation providers for imbalances caused by Utility, due to its failure to exercise prudent gas management practices.

X. Invoice Review, Approval and Payment

For natural gas, pipeline transportation and storage services it purchases in accordance with this Exhibit B, Utility shall have responsibility for receiving invoices from gas, transportation and storage suppliers, reviewing them for accuracy, approving/rejecting invoices for payment and forwarding to DWR for payment. Utility shall provide DWR sufficient documentation to verify payment of the invoices.

XI. Forecasting

Utility shall be responsible for all gas price, demand and supply forecasts which Utility believes are consistent with its gas supply responsibilities.

XII. Risk Management

Utility shall develop and advise DWR of plans for the hedging of DWR Fuel Supply.

XIII. Market Intelligence

Any and all efforts to obtain, analyze and utilize market intelligence for decision-making purposes shall be the responsibility of Utility.

XIV. Payment of Gas Costs

For natural gas, pipeline transportation and storage services that are purchased and provided by a Supplier under an approved Fuel Supply Plan, DWR shall pay such gas related costs as part of the invoice for Energy submitted by the Supplier. For natural gas, pipeline transportation and storage services provided under DWR contracts and administered by Utility on behalf of DWR, DWR shall pay invoices from suppliers after they have been reviewed and approved for payment by Utility.

XV. Allocation of Existing DWR Gas Contracts

DWR has entered into gas supply, transportation and storage contracts as provided in Attachment 1 to this Exhibit B that have expiration dates after the Effective Date of this Agreement. The administrative and operational control of the contracts listed on Attachment 1 of this Exhibit B will become the responsibility of Utility. This shall include (i) scheduling gas transportation, (ii) confirming gas deliveries, (iii) nominating gas withdrawals from and injections into storage, if applicable, (iv) and reviewing and approving invoices for payment. When approved, invoices shall be transmitted to DWR for payment within 10 days of receipt of invoice from the gas supplier, gas storage or gas transportation provider.

XVI. Financial Hedge Instruments

If DWR has entered into any financial hedge transactions that will remain operable after the Effective Date of this Agreement, DWR shall retain full administrative and operational control over such transactions.